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The role of local government units in attracting FDI: The case of the Lodz Region[1]

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The article focuses on the activities of local government units (LGUs) in the Lodz voivodeship (Poland). More importantly, it compares the activities of local authorities in selected EU Member States of Central and Eastern Europe. Despite the fact, that foreign investors consider Central and Eastern Europe one area, the countries in the region differ significantly with respect to economic achievements, foreign direct investment (FDI) absorption capacity, and the approach to investment incentives.

The paper aims to evaluate local government's efforts undertaken to attract FDI in view of a comparative analysis for regions in three countries: Hungary, Poland and Romania, and a direct research involving representatives of all counties and 36% of communes in the voivodeship of Lodz.

The article centres around four aspects. First, it presents comparative analysis for selected Central and Eastern Europe (CEE) regions and it reviews instruments used by the LGUs to attract FDIs. Then, it provides the evaluation of communes and counties' preferences when it comes to attracting FDIs. The third analysed aspect is the impact of FDIs on local economies. Finally, we also identify impediments to the inflow of FDIs to communes and counties.

JEL Classifications: F21, R11

Keywords: Regional development, FDI, Lodz region

Introduction

International capital flows have an increasing impact on the shape of the world's economy. A special form of these is FDI, whose aim is to gain control over a business entity in one country by residents of another. However, FDIs are a much more complicated economic phenomenon than the mere capital movement. Entities investing in this way create dependent companies in other countries and, by doing that, become multinational enterprises (MNE). The process has a great significance for both home and host countries. There is a fairly common conviction concerning the benefits arising from FDIs for the developing countries, although empirical studies not always prove the thesis (Lipsey and Sjöholm, 2005).

In 2012, FDI inflows increased in all major economic groups - developed, developing and transition economies. The report "European Attractiveness Survey 2013" by Ernst &Young suggests that the performance of all of Central and Eastern Europe has been the

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best for years. According to investors from across the world, the attractiveness of the region is higher than that of Brazil, Russia or India. Globally, China is still the most attractive. It is followed by Western Europe and North America, while Central and Eastern Europe ranks fourth. In 2012 investors created more jobs in Central and Eastern Europe than in the western part of the continent .

On top of that, the report "Central and Eastern Europe Economic Scorecard - a sustainable future in a great region" by PwC, shows an increasing importance of Central and Eastern Europe among investors. Nevertheless, average GDP per capita in the region, measured with purchasing power parity, represented only 57% of the average for Western Europe in 2012. That is why the "Central and East European countries must offer even better conditions for investors, both domestic and foreign. Lower cost of labour is not enough anymore, strategies are needed that build-up the competitive advantage over other regions" - concludes the PwC's chief economic advisor, W. Orłowski (www.euroinfrastructure.eu).

FDI can also be analyzed at regional (and local) level as it may contribute to regional development through the transfer of capital goods, technological, organizational and marketing solutions (Dunning, 1979).

Studies show that FDI entities may play an important role in promoting technological advancement of a region, its productivity or ability to compete in international markets. Foreign companies, by transferring their resources and know-how, often make it possible to local entities to see and acquire positive models. According to some studies, however, they may also become serious competitors to local entrepreneurs who, due to technological deficiencies and lack of capital, are not able to face the competition (Copenhagen Economics, 2006).

That may be the case of the regions of Central and Eastern Europe, including the Lodz region where we conducted our study and which is one of the poorest EU regions. According to EUROSTAT, in 2011 its GDP per capita amounted to only 60% of the EU28 average. It was below the average for Poland (65%) and the Voivodeship ranked 6th among 16 Polish voivodeships (Eurostat, 2014).

To some extent, FDI effects depend also on local and regional economic circumstances. In the countries of Central and Eastern Europe local authorities play an important role in this respect as they have resources and competence needed to implement economic policy at regional and local levels. Studies for various regions clearly show big importance of location-related factors, which, in turn, depend on how active local and regional authorities are (IMF, 2003).

This article focuses on the activities of local government units in the Lodz region against the background of the regions of Central and Eastern Europe. Its aim is to evaluate local government's efforts undertaken to attract FDIs in view of the results of research of selected EU regions and a direct research carried out with representatives of ca. 43% of all local governments in the region.

Surveys on the involvement of local authorities (self-governments) in FDI support are rather rare and usually linked with the assessment of investment attractiveness of selected areas. However, studies of the activities of LGUs undertaken to attract and keep foreign investors have been conducted in Poland for quite some time. They were conducted for several regions, including Malopolska and Kujawy-Pomerania (Noworól, 2008; Karaszewski, 2005). Some of them focus on instruments applied by public administration, including financial and non-financial incentives.

In one of the studies, Orłowski (2010) compared the relevance of factors decisive for the interest of foreign investors in 12 countries of Central and Eastern Europe between 1995 and 2007. The results showed that in the period covered by the analysis none of the tested economic variables was statistically significant in the countries of the region, including the scale of fiscal burden, particularly interesting from the viewpoint of the LGU.

On the one hand, it may confirm little importance attached to incentives and suggest they should either be strengthened or modified. On the other hand, in the light of empirical studies in other countries (Morisset and Pirnia, 2002), Polish experiences would only reinforce more general finding that in weaker economies what counts are fundamental factors while incentives are not decisive for investment location.

Literature review

Opinions on benefits experienced by countries and regions as a result of FDI are rather common in both literature and among economic practitioners and politicians. However, as we have pointed out already in the introductory part, these effects are ambiguous and many empirical analyses conducted on all continents demonstrate, that their impact on welfare may vary, although, in most cases, it is positive (Świerkocki, 2011). Negative effects of FDI in Central and Eastern Europe were analyzed in particular by W. Orłowski (2010).

Spatial dimension of operations by multinational corporations in host countries gained in popularity together with the emergence of the so called new economic geography. It has also become important due to globalization, integration and regionalization processes, which reinforced the functions and competences of smaller territorial units (regions and sub-regions) as well as transnational groupings (Pietrzyk, 2002).

Regional authorities realized that a foreign investor is interested in a concrete location in space, where he would like to deliver his project. Even if in the first step he is looking for an appropriate country, at a later stage the investor must select a part of its territory, which offers the best conditions for starting a business. Thus, regions may compete for the final location decision of a foreign investor. Nowadays, MNE may be looking for an optimum location in almost any (safe) region around the world, which potentially offers a development opportunity also to *catching-up* areas. A foreign operator ensures exceptional supply of resources missing in the economy and better use of those, which are in abundance, independently of political will or capabilities of the central government (Świerkocki, 2011).

In recent decades, the development of economic activity of MNE has prompted a great deal of research over the motivation behind the inflow of foreign direct investment. FDI is considered one of the most important stimulants of growth, which also provides support to the economy in the times of stagnation. This is why studying foreign investors´ motivation may be especially useful for public administration. A rich review of theory and empirical studies was devoted to reasons behind FDI inflow (see e.g., Assuncao et al., 2011).

Numerous theories of the 1960s sought to explain the determinants of FDI inflow. Some of them were based on microeconomic factors, such as organizational aspects, cost reduction, and economies of scale. Others related to macroeconomics e.g., availability and allocation of resources, barriers to entry, political stability, market size, etc. (Dunning and Lundan, 2008; Faeth, 2009).

First studies of premises for FDI were based on models by Heckscher-Ohlin, MacDougall, and Kemp and referred to benefits from operating on a foreign market and resulting from e.g., lower cost of labour and reduced transaction risk. The theory of internalization was initiated by Buckley and Casson, who pointed out that companies decide to invest abroad when transaction costs are higher than the costs of internalization. However, the most comprehensive approach was proposed by Dunning (eclectic theory/OLI paradigm), who linked internalization with traditional trade theory and put in order benefits experienced by companies and resulting from the internationalization of economic operations. Undoubtedly, Dunning's main contribution into the theory of economics is the listing of various theories and concepts as well as variables relating to ownership, location and internalization, which determine international activities of companies (Dunning and Lundan, 2008).

Factors, which belong to the OLI model are most often analyzed as FDI location determinants: infrastructure, human capital, economic stability, and production costs. Also institutional factors are taken into account (corruption, political stability, quality of public institutions, and tax and financial incentives) and factors resulting from the new trade theory (market size, market growth, openness of the economy and factor endowments) (Assuncao et al., 2011).

Increasingly often economic effects of FDI inflow are studied in regional perspective. Some authors stress that, e.g., in Central Europe, foreign capital played an important economic and social role by contributing to accelerated production increase and improving the standard of living of the population. Thus, the engagement in attracting FDI has ceased to be the competence reserved to central administration and now it involves also regional and local authorities for whom it is a way to indirectly offer additional jobs, higher income and better living conditions to their people (Tondl and Vuksic, 2008).

There are many instruments which may help attract investors, also foreign ones. Special role is played by investment incentives that impact the size, location or sector of the economy in which investment is planned and which are generally unavailable to comparable projects by domestic investors (OECD, 2003; WTO, 2006).

Financial incentives (mostly subsidies and tax allowances) are surely the most relevant among the plethora of instruments. Questionnaire surveys show that investors also appreciate preferential access to public services or subsidies relating to starting and developing business. Foreign investors also value information and promotion-related support such as free information and business advisory services. Although such assistance is a bit less important than investment support, in developing economies, with disturbances on the market, that may be one of the factors decisive for the location decision (Harding and Javorcik, 2011).

The empirical literature suggests that European economic integration has been accompanied by a rising level of foreign direct investment within the EU, and increased FDI flows from third countries (European Competitiveness Report, 2012, p.160).

However, with an integrated regional market, many of the traditional views of determinants do not distinguish effectively between alternative locations within the region. With deep integration, national market size does not matter much, the free mobility of labour and capital will, to some extent, temper the impact of national resource endowments, and the policy convergence, that typically accompanies regional agreements, also tends to reduce differences in institutions and macroeconomic stability.

However, not all parts of the region will benefit equally from the integration process. The largest inflows of FDI are likely to be drawn to relatively strong parts of integrating regions, where production conditions are favourable thanks to a central location or various agglomeration effects. Even small regions can compete strongly for investments if they can provide sufficiently favourable investment conditions. This has created a potential to use FDI as an instrument of regional policy, to support the development of countries and regions that have earlier lagged behind in income and development (Kokko and Gustavsson, 2004).

Comparative analysis for selected CEE regions

Countries of Central and Eastern Europe experienced a series of deep transformations in the 1990s, as a result of which they shifted from centrally planned economy to market-based allocation of resources. The transformations were, and still are, taking place with different intensity and efficiency in individual countries.

The foreign direct investment inflows into the CEE economies were a vital factor in the first stage of the privatization process during the transition period. FDI has increased in the past twenty years, to become the most common type of capital flow needed for the reconstruction, stabilization of the CEE economies and economic growth. The volume of FDI inflows has grown rapidly, as the Governments of the CEE countries have officially encouraged FDI and developed FDI promotion programs providing substantial incentives for foreign companies. After privatization, local authorities in the CEE countries launched activities to improve the productivity, employment and transfer of new technologies to ensure sustainable economic growth (Kornecki, 2008).

Besides, the accession of the countries of CEE to the EU improved the image of the region, which is now perceived as open and stable for foreign investors, and contributed to bigger inflow of FDI. The institutional settings, such as the rules regulating the entry and operations, and the legal and administrative system, are very important factors in determining every type of investment decision. FDI restrictions have declined considerably in the EU and they are currently among the lowest in the world, providing a favourable business environment for foreign companies.

TABLE 1. ASSESSMENT OF REGIONS AND INCENTIVES FOR FDI OFFERED BY REGIONAL AUTHORITIES IN HUNGARY

<table>
<tr><th>ASSESSMENT CRITERION</th><th>DOMINANT REGION</th><th>PERIPHERAL REGIONS</th><th>CONCLUSIONS AND COMMENTS</th></tr>
<tr><td>DEVELOPMENT OF REGIONS</td><td>- One region, Kozep-Magyararszag, 63% above national average GDP</td><td>- 60% below national average GDP</td><td>- The ratios are indicative of deep polarization of the development of regions. Besides, in the period 2000-2009 disproportions got deeper.</td></tr>
<tr><td rowspan="2">INCENTIVES FOR FDI AT REGIONAL LEVEL</td><td colspan="2">For all the country's regions</td><td rowspan="2">- Analysis showed that EU Structural Fund resources were of minor relevance in attracting FDI
- Out of 50 the biggest MNEs operating in Hungary, over a half benefited from the offer of Industrial parks.</td></tr>
<tr><td colspan="2">- Financial resources from Structural Funds.
- Investment conditions and promotion strategy for foreign investors.
- An "Investor-friendly settlements programme" was developed aimed at improving the conditions for the development of local entrepreneurship and the abilities of local authorities to attract foreign investors.
- The presence of "Free entrepreneurial zones" in underdeveloped micro-regions with smaller towns. The zones offer reduced corporate income tax, social tax, vocational training contributions.
- The presence of "Industrial parks" owned by local authorities or private business. Investors are encouraged to locate their investment in parks by the infrastructure and cooperation between local authorities and business circles.</td></tr>
<tr><td>LOCATION OF GREENFIELD INVESTMENT PROJECTS</td><td>- In the richest region there were: 46% of investment projects; 47% of newly created jobs; 37% of invested capital.</td><td>- In other regions differences were small, each of them had ca. 6-7% of investment projects, new jobs or invested capital.</td><td></td></tr>
</table>

Note: * GDP per capita in the region higher than the national average. ** GDP per capita in the region below national average
Source: Own study based on Hunya (2014).

In 2014 a comparative analysis was made for three countries (Hungary, Poland and Romania) in terms of the number of greenfield FDI projects and of GDP by NUTS-2 sub-country regions. The analysis covered the period 2000-2012. The authors wished to find out, which regions received a smaller or larger share of projects than their share in GDP (Hunya, 2014). What was important from the point of view of the paper at hand, they also identified the role of the regional and investment policy tools applied in each of the countries, looking at their possible impact on the investors' choice of location.

Tables 1-3 present comparative analysis of regions in the three countries with respect to the following assessment criteria from the viewpoint of FDI inflow:

1) development of regions
2) incentives for FDI at regional level
3) location of greenfield investment projects.

Data in the report suggest that the Western regions of Hungary are better developed and they attract more FDI than others. Central and regional authorities have undertaken many activities designed to encourage foreign investors to locate their projects in less developed regions. However, as stressed by the authors of the report, the effort was only partly successful in the Northern part of the country. Poland was the next country to analyze. The Table 2 presents the main conclusions (Hunya, 2014).

TABLE 2. ASSESSMENT OF REGIONS AND INCENTIVES FOR FDI OFFERED BY REGIONAL AUTHORITIES IN POLAND

ASSESSMENT CRITERION	DOMINANT REGIONS*	PERIPHERAL REGIONS**	CONCLUSIONS AND COMMENTS
DEVELOPMENT OF REGIONS	- The most developed regions are: Mazovia, Lower Silesia and Silesia. In Mazovia region per capita GDP is 2.5 times higher than in Lubelskie and other regions of Southern and Eastern Poland.	- Other regions have GDP below the national average. Among the least developed regions only Lubuskie and Opolskie reported an increase of GDP per capita compared to national average. In other regions development remained unchanged and regional polarization continues.	- Concentration of greenfield FDI projects is not very visible on the map of Polish regions. In industrial regions (e.g. Lower Silesia and Silesia) the number of projects is similar or even higher than in the richest region of Mazovia. This is due to the nature of the investment. FDI projects in Silesia include industry, while Mazovia with the capital city of Warsaw specialize in services.
INCENTIVES FOR FDI AT REGIONAL LEVEL	All the country's regions - Special Economic Zones (SEZ) combine the needs of investors with those of the regions, where they have been established. Each zone is an administratively distinguished area of Polish territory earmarked for economic activity pursued on preferential terms. An entrepreneur in a SEZ benefits from tax allowances and, on top of that, he starts the business on a developed plot. - State aid intensity ranges from 30, 40 to 50% of eligible costs of projects.		- The distribution of SEZ shows they are a vehicle of structural restructuring by FDI in regions with good potential rather than of attracting investment into less developed areas. The SEZ attracted greenfield investment projects as they offer land at low prices and developed infrastructure.
LOCATION OF GREENFIELD INVESTMENT PROJECTS	- 69.4% of projects were executed in better off regions; - 57.5% of new jobs were also created in better off regions.	- 30.6% of projects were executed in poorer regions; - 42.5% of new jobs were created in poorer regions.	- The ratios cover the period 2009-2012. However, it is worth stressing that compared to the period 2005-2008 the share of regions with high aid intensity increased in the total number of projects and job creation.

Note: * GDP per capita in the region higher than the national average - State aid intensity of 30 and 40%. ** GDP per capita in the region below national average - State aid intensity of 50%.
Source: Own study based on Hunya (2014).

The survey did not demonstrate clearly to what extent the efforts of local authorities impacted the attraction of foreign investors. It is worth stressing, however, that the competence of regional authorities in Poland is bigger than that of regions in Hungary and Romania. Generally speaking, investors when making their investment location decisions in Poland were guided by cost-related advantages. In the period covered by the study, the biggest number of projects in relation to GDP was reported in Hungary. Romania attracted more greenfield foreign investments in relation to the GDP than Poland. The main conclusions from the analysis of Romanian regions are outlined 3.

TABLE 3. ASSESSMENT OF REGIONS AND INCENTIVES FOR FDI OFFERED BY REGIONAL AUTHORITIES IN ROMANIA

ASSESSMENT CRITERION	DOMINANT REGION*	PERIPHERAL REGIONS**	CONCLUSIONS AND COMMENTS
DEVELOPMENT OF REGIONS	- Bucaresti-Ilfov Region is more dominant in terms of per capita GDP or FDI than in the other countries. Its GDP per capita is 2.2-2.4 times higher than the national average against 1.6 times in the case of capital regions in Poland and Hungary. This is due to the fact that the region includes only businesses from Bucarest agglomeration.	- Other regions show modest discrepancies between 62% and 114% of the average in 2010.	
INCENTIVES FOR FDI AT REGIONAL LEVEL	All the country's regions - State aid scheme covers all the country. Bucaresri-Ilfov Region receives support the intensity of 40%, other regions 50%. - EU programmes for SMEs. - Incubators of entrepreneurship, Industrial/Business Parks, the Cluj IT Innovation Cluster - established in cooperation with city authorities, regions, local business and central government.		- Initiatives that encourage foreign investors at national and regional levels are not among decisive factors for FDI location in Romania.
LOCATION OF GREENFIELD INVESTMENT PROJECTS	- The richest region reported: 40% of investment projects; 30% of newly created jobs; 30% of invested capital.	- The other major FDI locations were all in the Western part of the country.	

Note: * GDP per capita in the region higher than the national average . ** GDP per capita in the region below national average
Source: Own study based on Hunya (2014).

Summing up, we should highlight that the results of the analysis confirm findings from theoretical considerations on the dependence between FDI inflow and the development of a region. The analysis conducted in regions of the three countries (Hungary, Poland and Romania) revealed significant regional disparities in attracting new foreign investors and the dominance of regions, which include capital cities. Regional discrepancies between NUTS-2 regions in terms of per capita GDP have become marginally smaller in recent years but were mainly unrelated to the location of new foreign investments. State aid for large investments, industrial parks and special economic zones has been among the tools guiding the choice of location for new FDI projects. We may not unambiguously demonstrate, that the efforts of local authorities have had direct impact upon enhanced investment attractiveness of individual regions. Nevertheless, the support for creating agglomeration advantages by clustering, industrial parks in less developed regions may increase the attractiveness for new investments.

The role of LGUs in Polish economy

Local government, because of the statutory scope of its own tasks and the possibility to deliver additional tasks with the financial support of EU funds, currently plays the key role in the economy of the region. It manages, among others, public resources and acts as an investor and employer. Its possibilities to act are limited only by the lack of sufficient resources and central government prerogatives with reference to law making and enforcement, including economic law.

Local government can directly and indirectly impact the social, economic and territorial conditions of particular areas by using available legal instruments, administrative procedures and financial resources. Therefore, these and other own tasks are essential for the operations of enterprises in the region, including FDI enterprises. We can distinguish five spheres of local government activities influencing investment climate in a given area and relating to (Strzelecki, 2008, pp.39-43):

1) regulations and law
2) information and promotion
3) investment and organization
4) finances and redistribution
5) coordination and mediation.

EU membership means support for investors in Poland must comply with State aid rules. These rules are stipulated in Arts. 107 and 108 of the TFEU; in Poland, State aid is regulated by the Act on Proceedings in State Aid Cases. These regulations require to treat foreign and domestic investors alike.

Competencies in attracting and supporting foreign investors in Poland are shared between central government and local government administration at regional and local levels. Central administration has got institutional and financial resources to coordinate national economic policy vis-à-vis entities with foreign capital. The key role is played by the Ministry of Economy, Ministry of Finance, Polish Information and Foreign Investment Agency, and Polish Agency for Enterprise Development. They have at their disposal budgetary resources and EU funds allocated for various investment programs (Operational Program Innovative Economy, Program to support investments of high importance to the Polish economy).

Special Economic Zones (SEZ) are a specific support instrument. They are important for attracting foreign investors and for enhancing investment attractiveness of a host country or region. At present in Poland there are 14 SEZ. Until the end of June 2012, almost 1,500 permits were issued to operators to run businesses in such zones. Entrepreneurs invested almost PLN 82bn and employed more than 240K people. Main incentives encouraging locating a business in SEZ include preferential operational terms, developed investment plots, and qualified staff (Special Economic Zones, 2012).

Data of the Ministry of Economy show that entities with foreign capital play an important role as sources of investment expenditure in all of the 14 special economic zones. As at 31 December 2010, the total investment outlays amounted to over PLN 73 bn. Only 17.3% of them represented Polish capital. There are other studies, according to which the role of special economic zones in attracting foreign investors to Poland is minor (Stawicka, 2008; Różański 2010).

Preferential treatment means the possibility to benefit from State aid. In most cases, in accordance with the provisions laying down State aid intensity allowable in a given area, it takes the form of income tax exemption and property tax exemption. The location of the zones and terms, on which aid is granted, is decided, pursuant to law, by central government administration. Decisions are made in cooperation with local government, taking account of the needs and development conditions in regions.

Tax allowances are incentives within the almost exclusive competence of the local government. Although maximum rates are laid down by the Minister of Finance, local administration may decide on the amount, scope and terms on which this form of State aid is granted. There are also other projects, in which central administration closely cooperates with the local government, such as e.g., Regional Investors Assistance Centres operating at present in all regions in cooperation with the Polish Information and Foreign Investment Agency and offering information and organisational support to entities with foreign capital.

In general, however, the role and responsibilities of the local government connected with assisting foreign investors have considerably increased in recent years, in particular after Poland's EU accession in 2004. Regional and local authorities have organizational and financial possibilities to create favourable conditions for business in their respective regions. They no more limit themselves to offering incentives but they invest in hard and soft infrastructure.

According to information provided by the Office of Competition and Consumer Protection (Polish abbr. UOKiK), in 2011 State aid in various forms was granted by 389 local government units. It was almost a half of all the cases involving granting State aid (831). State aid schemes are developed and implemented mostly by bigger local government units, such as voivodeships, counties, large cities and towns. UOKIK stresses that in 2011 at least one instrument of State aid was applied by all local governments at regional level, almost 80% of counties and every twentieth commune. The value of State aid granted by local governments in 2011 amounted to PLN 1, 867.2 mn and represented ca. 11% of all the State aid granted in Poland. Forms of aid were dominated by grants, tax subsidies, deferred payments and payments in instalment. It was mainly regional aid for new investment projects, creating new jobs, general and specialist training, and SME development.

Entrepreneurs from the Lodz region were the third top recipients of aid in all voivodeships. In total, businesses in the region received PLN 1.9 bn, i.e. 11% of aid in 2011. Higher shares were recorded only for Mazovia (16.9%) and Silesia (13.4%). It is worth adding that average aid per entrepreneur in the Lodz Region was the highest in the country (ca. PLN 8.5K) and almost twice as high as the average for Poland.

To sum up, nowadays the conditions for businesses and the living standard in a given area, factors decisive for location decisions made by foreign investors, depend on the commitment of the local government.

Characteristics of the region of Lodz

Lodz voivodeship[1] occupies the area of ca. 18.2K km², representing 5.8% of the total area of the country, in Central Poland and is inhabited by more than 2.5 mio inhabitants (6.7% of the population of Poland). Its administrative structure includes 24 counties with 3 townships and 21 country counties and 177 communes, among them 18 urban communes, 24 urban-rural communes, and 135 rural communes. Townships are: Lodz, Piotrkow Trybunalski and Skierniewice. Lodz is the capital city of the region and the third most populated city in Poland with the population of 740K.

The share of the region in the GDP of Poland in 2011 was 6.1%. The result places the region at the sixth position among all 16 voivodeships. GDP per capita accounted for 92% of the average for Poland. Since 2000 global and per capita ranking of the region has not changed in any substantial manner. The economy is dominated by services, the share of 61.6%, with manufacturing sector (including construction) and agriculture representing respectively 32.85 and 5.6% of GDP in 2011. Compared to all of the country, the importance of services is a bit smaller and the shares of the two remaining sectors are proportionally higher.

Traditionally, Lodz voivodeship is associated with textile and apparel industry, which emerged here in the 19th century. At present its role is smaller but other manufacturing industries develop, especially power generation and white goods manufacturing. Strategic industries for the voivodeship listed in the Regional Development Strategy are: power generation, logistics, textile, food processing, construction, chemical, and biotechnology.

Almost 230 K businesses are based in the Lodz voivodeship. The majority of them are small and medium-sized enterprises, more than 97% of them are private. Few state-owned economic entities are subject to restructuring and commercialisation. The biggest population is that of retail and wholesale trade companies (33%) followed by industrial (13.5%) and real estate management entities (13.5%). Agriculture plays an important role

[1] According to Eurostat, voivodeships in Poland are considered NUTS II level units.

in regional economy, in particular in the counties of Kutno, Lowicz and Leczyca. Agricultural land accounts for 62% of the total area of the region.

In 2011, 17.9% of the population (aged between 16 and 65) had higher education, a share higher than the average for Poland. 61.3% of the total population were people with concrete vocational skills (at various levels). There are 30 higher education institutions in the voivodeship with 108.2 K students (6.2% of all students in Poland) in 2011.

From the viewpoint of foreign investors, the main advantages of the Lodz Region are the size and quality of its low-cost labour force and transport connections. Its weaknesses are mainly: little activity vis-à-vis investors, market absorption below the average, poor economic and social infrastructure.

Lodz voivodeship is a region of moderate investment attractiveness and its synthetic evaluation deteriorated in recent years. In the ranking of the Gdansk Institute of Market Economics (based on seven factors), the voivodeship ranked eighth (Nowicki, 2011). In almost all categories the Lodz region ranks in the middle, meaning the evaluation is not extremely low, however, it is clearly far behind the leading regions.

The highest, fourth ranking position was reached in the category of labour resources and costs. As we have already mentioned, inhabitants of the region are relatively well educated, better than the national average, but the wages are lower. In 2011 average salary represented as little as 89.7% of the national average. The lowest ranking position was scored in public security (11th).

Against this background, investment attractiveness of the Lodz sub-region (NUTS III), covering a part of the voivodeship around the city of Lodz, looks quite promising. In the ranking of investment attractiveness for industrial businesses in 2011, Lodz sub-region ranked 3rd among 54 sub-regions in Poland. Its strengths included e.g., vast resources of skilled workers and unemployed people, bigger than average population of graduates and good transport connections. Lodz sub-region ranked 2nd in the investment attractiveness ranking for services. It was also highly evaluated as a location of high-tech investment projects. Fourth ranking position in the country seems very good, however, it is two positions lower compared to 2009. Big resources of labour and its low cost are constantly stressed as the advantages of the Lodz sub-region (Nowicki, 2011)

There are differences across the Lodz Region when it comes to social and economic development and investment attractiveness. A clear division line distinguishes the Lodz sub-region (Lodz agglomeration) from the rest of the voivodeship. Lodz sub-region covering Lodz and its neighbouring communes reports higher income and spending, better economic and social infrastructure and is more attractive to investors. That is mainly due to agglomeration-specific benefits. The rest of the region performs much worse in investment attractiveness rankings. The reason is poor economic and social infrastructure. Few investors, low income and spendings preserve disproportions and create a vicious circle of underdevelopment.

In 2011 in the region of Lodz there were 1,033 economic operators with foreign capital, 66 out of them employed more than 250 people. The region hosts almost exclusively European capital, mainly from the Netherlands and Germany. In 2011 the region ranked seventh in respect of the value of equity capital in companies with foreign capital; the majority (95%) accounted for foreign capital, the total value of USD 1.6 bn. Lodz voivodeship represented only 2.6 % of the value of this capital, which was little compared to its 6.7% share in the total population of Poland. However, the share is increasing. The number of jobs in companies with foreign capital in the Lodz voivodeship was 76.4 K, i.e. 4.9% of all jobs in such companies in Poland (Economic activities of entities 2012). Much higher share in employment than in capital itself suggests the region very skilfully uses its cost-related competitive advantages connected with the workforce (Godlewska-Majkowska, 2012).

The Lodz Region accounts for 3.3% of sales of companies with foreign capital in Poland, meaning higher than the average revenue per unit of capital. Foreign operators in the

Lodz voivodeship recorded positive net financial result in 2011, but almost half of them reported losses. These were mostly micro businesses, employing not more than 9 people (Economic activities of entities, 2012).

FDI entities in the Lodz Region are closely related with foreign markets. In 2011 their exports reached USD 4.9 bn and imports USD 5.5 bn. Exports were the source of 27% of revenue from sales (Economic activities of entities, 2012).

Companies with foreign capital play an important role in the economy of the voivodeship of Lodz. In 2011 their share in total revenue of companies employing more than 9 people was 32.3% and they represented 14.8% of employment. It means, revenue per employed person in FDI entities is more than twice higher than the average (Economic activities of entities, 2012).

Methodology

The study included interviews conducted with 87 local government units, representatives of almost half of the units from the voivodeship of Lodz - all counties and 36% of communes in the voivodeship of Lodz. The interviews were conducted with representatives of all types of local governments, i.e. townships and country counties, urban communes, urban-rural communes, and rural ones. Detailed structure of the sample is presented in Table 4.

TABLE 4. STRUCTURE OF THE SAMPLE

No.	Unit	Number	Share in the sample (%)
1.	Township	3	3.50
2.	Country county	21	24.10
3.	Urban commune	13	15.00
4.	Urban-rural commune	15	17.30
5.	Rural commune	35	40.00
6.	Total	87	100.00

Source: Own study.

Statistical data show that foreign investors choose big and medium cities as first locations of their economic activity. Therefore, we gave preference to townships, urban communes, and urban-rural communes when choosing the sample. To arrive at a complete picture of the region, representatives of all country counties were included in the study.

Interviews were conducted with top officials of local units: Starostas (heads of county boards), Vogts (executive officials in communes), commune Secretaries or their deputies. The study was partly structured. People who conducted interviews could ask additional questions, request clarifications or change the sequence of some questions. Interviewers were all experienced and knowledgeable people with appropriate expertise in such jobs.

Random and quota sampling was applied. In selecting local government units quotas were based on the types of units (type of a commune, type of a county). Results of the survey were digitalized. Various statistical tools useful for processing questionnaire data were applied.

Research tool consisted of 37 questions divided into four thematic modules. The first module included questions, which helped characterise local government units included in the study in most general way. The second one contained questions concerning the activities of local government units designed to attract foreign direct investment. The goal of the third module was to assess local government activities undertaken to retain foreign investors (post-investment assistance). In the fourth module we made an attempt to identify factors, which, in the opinion of the local government, determine the inflow of foreign direct investment to communes and counties in the Lodz Region.

We used mainly half open and closed questions (multiple choice, free choice, disjunctive, conjunctive, rating scale and filter questions) in the questionnaire. Some questions were open-ended as one of the goals of the study was to explore the opinions of local government representatives on types and efficiency of assistance offered to foreign investors in the Lodz Region. The paper discusses results based on the fourth part of the questionnaire used in the study.

Results of the study

FDI impact upon the economy of communes and counties

In fact all the LGUs are definitely interested in investments creating new jobs in their areas. A significant majority indicated the need to attract environmentally friendly projects. There is a high pressure of local community for such types of investments. Pressure on other kinds of investments is much weaker or none. Therefore, probably, a lot fewer local governments prefer modern FDI connected with technological advancement. A little interest in them occurs in similar proportions in the rural areas and in the cities. It is, however, remarkably higher among LGUs where foreign investors are already present.

TABLE 5. CATEGORIES OF ENTERPRISES PREFERRED BY COMMUNES AND COUNTIES

Specification	Number of indications*
Implementing environmentally friendly investment projects	57
Creating new jobs	72
Implementing modern technologies	27
with their own R&D centres	7
other	4
any	7

Note: * Maximum two indications.
Source: Own study.

TABLE 6. PREFERENCES OF COMMUNES AND COUNTIES CONCERNING FDI SECTORS

Specification	Number of answers	
	absolute	in %
Commune/county has no sectoral preferences	57	65.52
Commune/county has got sectoral preferences	27	31.03
Lack of answers	3	3.45
Total	87	100.00

Source: Own study.

About two thirds of LGUs do not have any sectoral preferences. Others are interested mainly in projects in sectors with good supply conditions in a commune or in a county, in respect of:

a) natural conditions, advantageous for the development of tourism in landscape parks, wind energy, use of geothermal waters
b) intensive agricultural production that may provide basis for various fields of agriculture and food processing

c) location along transportation routes offering favourable conditions for the expansion of logistic companies

d) labour resources with specific skills that could provide a basis for the initiation of apparel, textile, and furniture production[1].

Regardless of the above, local governments are ready to receive practically any investor provided the business will not be burdensome to the environment.

Although local governments are interested mainly in projects creating new jobs, it does not mean, that they prefer investments resulting in big enterprises employing over 249 employees. Only few LGUs are interested in such projects. Local governments may negatively evaluate a possible impact of the presence of large enterprises on the social and economic situation of their units or they do not see a chance for such companies to be created.

A remarkable majority of LGUs do not specify a desired size of employment in companies created as a result of the inflow of foreign capital. Local governments are ready to support every foreign investor, regardless of the number of created jobs. The percentage of answers indicating lack of preferences concerning employment in FDI enterprises is similar for all types of local government units.

TABLE 7. PREFERENCES OF COMMUNES AND COUNTIES WITH RESPECT OF THE SIZE OF FOREIGN DIRECT INVESTMENTS

Size of FDI	Number of answers	
	absolute	in %
Micro - employing up to 9 people	12	13.79
Small, employing 10-49 people	15	17.24
Medium , employing 50-249 people	-	-
Big - employing 250 and more people	5	5.75
No preferences for any of the above investment forms	54	62.07
No answer	1	1.15
Total	87	100.00

Source: Own study.

TABLE 8. CALCULATIONS FOR CHI-SQUARE TEST OF INDEPENDENCE (χ2) (1)

Variable 1	Type of LGU*	Type of LGU*
Variable 2	Sectoral preferences of a LGU with respect of FDI**	FDI size-related preferences of a LGU**
No. of categories of variable 1	4	4
No. of categories of variable 2	2	2
No. of studied entities	84	86
Calculated χ^2	0.921	2.376
Theoretical χ^2	7.815	7.815
Significance level	0.05	0.05
Cramer's V	0.105	0.166

Note: * Rural county, urban county or urban commune, urban-rural commune, rural commune. ** Yes or No.

Source: Own study.

[1] These results coincide with results of other studies. In particular LGUs in Kujawy-Pomerania Region (of a similar economic structure) also prefer FDI mainly in food processing and tourism. See Karaszewski (2005).

We also studied the interdependence between preferences in FDI and the type of a LGU. For this purpose we tested two hypotheses on whether such statistical interdependence exists and how strong it is for:

1) having or not having sectoral preferences vis-à-vis foreign investors and the type of LGU,
2) preferences of LGU with respect to the size of FDI and the type of LGU.

Hypotheses were verified with the Chi-square test of independence (χ^2). We also calculated Cramer's V. Calculated χ^2 statistics falling below theoretical χ^2 mean there are no grounds for rejecting hypotheses on the independence of variables in both analysed cases. Hence, sectoral and FDI size-related preferences are not dependent upon the type of LGU. The conclusion is confirmed by Cramer's V coefficients which are indicative of very weak statistical dependence.

FDI impact upon the economy of communes and counties

Representatives of LGU expressed their opinions about economic effects of the presence of foreign direct investments. They did so on the basis of a closed question with a seven-degree scale. The Alpha Cronbach ratio, 0.75, indicates good fulfilment of the requirements of measurement reliability, which means that factors considered in the question form a coherent picture and define the same way of interpretation (Ferguson and Takane, 2004).

Most local governments positively evaluate the presence of FDI enterprises. In the opinion of a smaller group they do not have any impact on the economy of a commune or a county. Only in few cases negative aspects of FDI enterprises in the region were listed. Definitely the best assessment was given to the importance of foreign investments for the growth of employment and creating new jobs. Over 80% of local governments claimed that the role of FDI in this field is "definitely positive" or "positive". No negative opinion was recorded and only few LGUs were of the opinion that foreign investment did not significantly impact the size of employment. It confirms previous observations that the creation of new jobs is the most desired effect of investments for local government authorities.

LGUs also appreciate the influence of foreign investments on investment attractiveness of a given unit. 60% claim that it is positive or definitely positive and that it may contribute to further capital inflow. Only 14% of LGUs think that it is of no importance and they do not think the "snowball effect" could occur.

In the opinion of the majority of LGUs, foreign investments have not influenced the environment. It is, undoubtedly, the effect of local governments' intentions to attract environmentally friendly projects, according to social expectations in this field.

LGUs, on the whole, realize the importance of FDI for the increase of revenues of communes or counties. They are less aware of their influence on the shape of social infrastructure and salaries and wages.

Ratios calculated for the distribution of answers confirm the above presented evaluation of FDI impact on the economy of a LGU. An average 5.194 from all the answers indicates that respondents on average evaluated their presence as "more than rather positive", although the result was diminished by a big number of neutral answers ("neither negative nor positive impact").

In order to identify the dispersion of answers to questions with rating scales we may apply typical variance bands. For a seven-point scale the corresponding variance band is 2.5 - 4.0. Its upper end is equivalent to uniform distribution across all points of the scale. The lower end is interpreted as a situation where values of answers focus around a certain point on the scale, like in a normal distribution. In examining self-assessment, the variance was below the lower end for seven factors, which indicates the answers were strongly focused around the means, i.e. they were very uniform. Low variations, below the lower edge typical for the range of a seven-point scale (2.5), obtained in the study are indicative of a very high concentration of answers: (Churchill, 2002).

TABLE 9. FDI IMPACT UPON THE ECONOMY IN COMMUNES AND COUNTIES IN THE OPINION OF THEIR REPRESENTATIVES - NUMBER OF INDICATIONS*

FACTOR	FDI IMPACT UPON THESE ASPECTS: definitely positive (7)	positive(6)	rather positive (5)	neither negative nor positive (4)	rather negative (3)	negative (2)	definitely negative (1)	No answer	Total
1.Number of jobs	24	22	8	3	-	-	-	-	57
2.Revenues of communes / counties	9	28	8	10	1	-	-	1	57
3.Number of (local) enterprises	3	17	13	23	-	-	-	1	57
4.Environment	1	8	10	35	1	1	-	1	57
5.Investment attractiveness of the commune/county	13	21	14	8	-	-	-	1	57
6.Quality of road infrastructure	9	19	9	15	3	1	-	1	57
7.Quality of social infrastructure (schools, cultural institutions, hotels, etc.)	2	15	13	26	-	-	-	1	57
8.Average salary	2	12	12	28	-	-	-	3	57

Note: *The study included local government units declaring the presence of FDI in their area.
Source: Own study.

TABLE 10. FDI IMPACT UPON THE ECONOMY IN COMMUNES AND COUNTIES IN THE OPINION OF THEIR REPRESENTATIVES - AVERAGES, VARIATIONS AND STANDARD DEVIATIONS

No.	Factor	Average	Variation	Standard deviation	Coefficient of variation*
1.	Number of jobs	6.109	0.797	0.893	0.146
2.	Revenues of communes/counties	5.571	1.055	1.027	0.183
3.	Number of (local) enterprises	4.952	0.932	0.965	0.195
4.	Environment	4.460	0.833	0.913	0.205
5.	Investment attractiveness of the commune/county	5.691	1.111	1.054	0.185
6.	Quality of road infrastructure	5.159	1.523	1.234	0.129
7.	Quality of social infrastructure (schools, cultural institutions, hotels, etc.)	4.873	0.919	0.959	0.197
8.	Average salary	4.738	0.797	0.893	0.188

Note: *Ratio of standard deviation to the mean.
Source: Own study.

The analysis of assessment of FDI impact upon LGU economy provided by local governments was extended with the study of statistical relationships. We verified hypotheses on the strength of relationship between these assessments and having or not having sectoral preferences vis-à-vis foreign investors. For that purpose, like in the case of previous verification (Table 6), we used the Chi-square test of independence (χ^2) and Cramer's V. Due to the limitations with respect to the size of the sample, the analysis was only to identify FDI impact on the number of jobs, revenues of communes/counties and road infrastructure. For the same reason, we took account of only two categories of variables. Obtained results clearly indicate that the relationship between variables is statistically insignificant, which means that having or not having sectoral preferences does not impact the assessment of FDI presence in individual LGUs.

TABLE 11. CALCULATIONS FOR CHI-SQUARE TEST OF INDEPENDENCE (Χ2) (2)

Variable 1	LGU sectoral preferences vis-à-vis foreign investment*		
Variable 2	FDI impact upon jobs**	FDI impact upon revenues of communes/counties**	FDI impact upon road infrastructure**
No. of categories of variable 1	2	2	2
No. of categories of variable 2	2	2	2
No. of studied entities	57	56	56
Calculated χ^2	1.5924	0.667	3.150
Theoretical χ^2	3.841	3.841	3.841
Significance level	0.05	0.05	0.05
Cramer's V	0.167	0.109	23.7

Note: * Yes or No. ** FDI impact: 1) Definitely positive or Positive; 2) Rather positive, Neither positive nor Negative, Rather negative, Negative, Definitely negative.
Source: Own study.

The study showed there is no statistical relationship between having or not having preferences with respect to FDI size and the assessment of its impact upon LGU economy. That confirms the opinions of local government representatives that they are ready to receive any investor.

Difficulties in FDI inflow in the opinion of representatives of communes and counties

Opinions concerning barriers to FDI inflow come from local governments' answers to open questions. They were received from 86 LGUs. High percentage of short answers such as "hard to say" or "lack of difficulties" was probably resulting from the ignorance of the surveyed individuals concerning the investments and needs of entrepreneurs in their area. The questions referred to the following fields:

1) laws
2) procedures
3) infrastructure
4) human resources and labour market.

Respondents' answers were divided into categories and further into sub-categories. It helped to outline the structure of answers to particular questions.

Referring to legal and procedural difficulties, LGUs most frequently and the strongest emphasized that regulations and procedures were too complicated, time-consuming, unclear and non-transparent. These are only partly dependent on local government units since it is a Polish nationwide problem. Most critical remarks referred to construction-related procedures, including those connected with purchasing land and construction law *("procedures connected with construction law….it is a true nightmare")*. Equally troublesome is the changing of status of agricultural land into industrial land, purchase of a larger area from many owners, and finding developed areas. An important barrier in obtaining land for investments is the absence of land development plans, especially due to long and complicated procedures of preparing and adopting these documents. Big difficulties in starting a business result from the necessity to obtain authorisations and permits. What was often mentioned were barriers connected with the requirements pertaining to environmental protection: unclear and dubious regulations, big area of protected lands and strong ecological organizations that may successfully block an investment.

Nearly one quarter of local governments were critical about the work of administrative offices in the voivodeship of Lodz. They pointed out the troublesome red tape, including long period of dealing with matters, low competences of officials with respect to attracting and servicing investors, lack of people speaking foreign languages. *("Incompetent officials, when they don't know something, they do not look it up", "Officials should be active, they should not wait, but act". "Office job in administrative bodies - too many permits and regulations, that an investor must apply for". "Mentality of people in (some) offices - deeply rooted the People's Republic of Poland" (PRL))*. The above negative observations referring to the work of administration in the region are in opposition to high self-assessment of activities addressed to foreign investors by the administration.

In the opinion of individual LGUs there are also other difficulties in FDI inflow connected with legally binding procedures and regulations. These include: incoherence and instability of the Polish law, lack of cooperation with voivodeship authorities (including little interest in investors and rural communes on the part of the voivodeship administration), lack of transparency in information materials concerning FDI.

In the opinion of a quarter of LGUs, the inflow of foreign investments is not hindered by procedures and regulations. The statements such as: "*so far I have not come across a withdrawal from an investment project by a foreign investor due to legal and administrative difficulties"* show that, in the opinion of respondents, existing legal and procedural situation does not discourage investors.

TABLE 12. PROCEDURES AND REGULATIONS AS DIFFICULTIES IN FDI INFLOW*

No.	Specification	Number of opinions	
		absolute	in %, in relation to answers of all the communes and counties
1.	Complicated regulations	40	46.51
2.	Complicated procedures	50	58.14
3.	Complicated procedures and regulations in the area of:	66	76.64
4.	Construction procedures, construction law, purchase of land	24	27.91
5.	Starting a business	17	19.77
6.	Obtaining permits and authorisations	17	19.77
7.	Environment protection	16	18.60
8.	Transforming agricultural lands into industrial	6	6.98
9.	Red tape	20	23.26
10.	Lack of cohesion and stability of Polish law	7	8.14
11.	Lack of available transparent information	7	8.14
12.	Poor cooperation with the voivodeship authorities	4	4.65
13.	Lack of obstacles or 'hard to say'	24	27.91

Note: *Synthesis of an open question.

Source: Own study.

Poor transport infrastructure is, according to LGUs, the main infrastructural obstacle for FDI inflow. Assessment of roads, lack of motorways and highways, and also slow pace of constructing them was very critical. There were a lot fewer reservations vis-à-vis railways, the services of which the entrepreneurs use, however, to a smaller extent. *("Roads are poor". "There are no roads to get to the motorways, it could be better if there were direct road connections with motorways, however, railway transport is not used")*. Only few of them perceived the weakness of air transport in the region as a barrier for FDI inflow.

Other infrastructure related obstacles are: power generation, gas, availability of investment areas, water supply, sewage system, and water treatment plants are of smaller importance. There were complaints about insufficient transfer power of electricity, lack of good quality distribution lines, unsatisfactory coordination of activities of gas and energy suppliers with local governments. (*"There is ill will on the part of energy and gas suppliers with relation to investing in technical infrastructure earlier than an investor appears, that is why the land is not fully developed. One has to specify how much energy will be needed")*.

Sewage and water management were criticized in most rural communes. It was suggested that the lack of investment plots and the necessity to purchase land from several owners may discourage a potential investor.

According to some local governments, there are difficulties in the inflow of foreign investors pertaining to poor quality of ICT infrastructure, waste management in communes, and R&D outlays in communes. Poor quality of hotels was perceived as a barrier by only two local governments. Others did not notice any problems relating to the shape of social infrastructure.

Lack of any infrastructural barriers was declared by only 11% of LGU representatives. They often substantiated their opinions with the quality of transport.

TABLE 13. INFRASTRUCTURE OBSTACLES IN FDI INFLOW*

No.	Specification	Number of opinions	
		absolute	in %, in relation to answers of all communes and counties
1.	Transport infrastructure, including:	62	72.09
2.	poor quality of roads	38	44.19
3.	too few motorways and highways	23	26.74
4.	railway infrastructure	10	11.63
5.	airport infrastructure	4	4.65
6.	Energy infrastructure	16	18.60
7.	Gas infrastructure	13	14.94
8.	Water pipes, sewage system, water treatment plants	13	14.94
9.	Investment areas	14	16.28
10.	ICT infrastructure	7	8.14
11.	Social infrastructure	2	2.32
12.	Waste management	1	1.16
13.	R&D outlays in communes	1	1.16
14.	No obstacles	9	10.47

Note: * Synthesis of an open question.
Source: Own study.

Opinions concerning obstacles relating to human resources and the labour market were strongly divided. According to half of the respondents there is a big deficit of workers with adequate skills in the region. However, according to over 30% of local governments availability of human resources is not a barrier to FDI inflow. The obstacles were connected, first of all, with the deficit of specialists with vocational and engineering background caused by a small number of graduates of vocational schools, technical schools, and technical universities. Thus, some respondents arrived at a conclusion that educational offer mismatches the needs of the labour market and local authorities have too little impact upon education to change the situation. *("There is a lack of specialists in particular fields. The worst thing is, that young people go to grammar schools and then they graduate from some international relations faculties and they have no skills").* Among labour market-specific difficulties respondents mentioned too limited scope of re-training courses offered by the labour offices and the outflow of educated people to big cities.

TABLE 14. OBSTACLES TO FDI INFLOW CONNECTED WITH HUMAN RESOURCES AND THE LABOUR MARKET*

No.	Specification	Number of opinions	
		absolute	in %, in relation to all communes and counties
1.	Lack of workers with adequate skills, including:	41	47.67
	Lack of specialists (with vocational and technical education)	21	24.42
	Lack of engineering staff	10	11.63
	Lack of managerial staff	3	3.49
	Lack of people speaking foreign languages	3	3.49
2.	Deficit of re-training courses in labour offices	6	6.98
3.	Outflow of educated people to big cities	5	5.81
4.	Hard to say	2	2.33
5.	No obstacles	26	30.23

Note: * Synthesis of an open question.
Source: Own study.

Discussion and more general remarks

Most of studies confirm that FDIs stimulate economic growth and counteract short-term economic problems of countries and regions. Opinions highlighting the benefits of FDI are rather common both in economic literature and among economic practitioners and politicians. The benefits include many aspects of the economy. FDIs seem to be particularly important for developing countries as they bring two production factors vital for economic growth into the economy: capital and technology.

There are also arguments against FDI. They usually focus on negative effects for the labour market and for the balance of payments or on monopolistic practices. W. Orłowski also drew attention to problems experienced by domestic enterprises in Central and Eastern Europe, which were unable to face the competition of FDI entities. However, the review of empirical studies conducted in many countries and in different periods allows us to put forward a general conclusion that usually FDI benefits outweigh the costs, thus the net result is positive (Świerkocki, 2004; Budnikowski, 2006; Rymarczyk, 2006; Orłowski, 2010).

Of course, there are certain areas still calling for more in-depth research and the final assessment of their economic consequences for the host country is still unclear. An example can be the environmental impact of FDI in the host country. On the one hand, threats to the environment are highlighted (in particular in less developed economies) resulting from the excessive exploitation of natural resources, increased consumption and shifting "contaminating" production processes to countries were environmental regulations are less stringent (creation of the, so called, pollution havens). On the other hand, foreign investors usually originate from developed countries, where technological and organizational advancement is high, which may lead to dissemination of good practices across the host countries (Gentry, 1999; Wysokińska, Witkowska, 2004). The need to increase such outlays is stressed, inter alia, by Homlong and Springler (2010). They highlight priority importance of environmentally-friendly projects for the development. In most cases the lack of resources in poorer regions is an argument for the engagement of foreign capital.

Positive effects of FDI impact upon host economy presented in the study are confirmed by other studies conducted in Poland.

The main benefit of foreign investment is the inflow of capital. In the light of the scarcity of internal capital resources, foreign investment is an important factor influencing regional development. Its effects are the most visible on the labour market. Interviewed local government units highly evaluated the role of FDI in raising employment. That is in line with assessments formulated in studies conducted in other regions of Poland (Wdowicka, 2005; Karaszewski, 2005). However, we must note that in most communes we are dealing mostly with greenfield types of investment, which create jobs in newly constructed plants. Effects are opposite when it comes to investment in companies that are acquired by foreign capital, much less represented among analysed units. In such cases employment is usually reduced due to the modernisation of organisation and technological changes.

Positive FDI impact on entrepreneurship, organisation and management models is also important. The studies stress negative impact of foreign investment on the operations of competitive local companies, which suffer from restricted access to the Polish market and reduced employment (Gorynia, 2005).

With respect to FDI impact on revenues in territorial units opinions are consistent. Revenues increase as land is sold to investors who pay taxes regularly. Local budgets benefit particularly from firms that occupy large areas and pay high salaries and wages (Wdowicka, 2005). FDI instigates the demand for materials, spare parts and services and, by that, it improves the situation of cooperating companies and stimulates the establishing of new operators. Striving to attract foreign investors improves the attractiveness of communes in terms of their technical and social infrastructure. The infrastructure, in turn, serves economic operators and raises the living standard of local population. Often investors participate in the cost of the infrastructure (Wdowicka, 2005).

Difficulties in FDI inflow to Poland are commonly known and rather uncontroversial (Freitag-Mika, 2006). Local government units are aware of them. Barriers to foreign capital are similarly assessed by the investors. The most discouraging factors are connected with transport infrastructure and binding provisions, in particular with their instability (Świerkocki, 2011).

Summing up we may say that positive impact of FDI on the economies of the host countries is also confirmed in UNCTAD surveys and analyzes. They stress that the policy vis- à -vis foreign investors is changing in many countries. Although it still focuses on attracting them, it has become more selective. In particular more attention is paid to the creation of new jobs, poverty reduction and adoption of environmental regulations. The modifications are designed to make the policy more effective (improved efficiency of public spending), to extend the benefits of FDI for the host regions and to reduce negative effects (UNCTAD, 2013).

Conclusion

Local government can, indirectly and directly, impact the economy e.g. by providing infrastructure, promotion, developing investment areas, and by implementing EU projects. Therefore its activity is essential for the functioning of enterprises in the region, including FDI enterprises. Thus, local government can deliver four basic groups of tasks, which determine investment climate in its respective area:

1) provide and develop infrastructure which simplifies the starting, pursuing and developing economic activity
2) promote the region and provide comprehensive information to potential investors
3) offer professional and quick administrative services
4) create favourable financial conditions for starting and expanding business activity, e.g. through State aid schemes.

In many communes and counties, local government is currently one of the biggest local investors, the biggest employer and capital owner. Having in mind also the EU resources and increasing competences, it seems, that local governments should do more than just promoting entrepreneurship and administrating it. Local government must, first of all, act like a business-like entity in areas relating to local and regional economy, manage the resources in an optimum way, professionally manage the unit and its staff as well as shape economic policy by creating conditions for conducting and developing economic activity.

It is clear that the increasing competition for FDI may well motivate authorities at different levels to introduce various policies to influence the pattern of FDI. Incentives applied by regional authorities (in particular in less developed regions, where State aid rules allow for higher intensity of aid) may enhance investment attractiveness of these areas and, by the same token, favour the elimination of regional economic disparities. Establishing of institutions in support of economic and social development of CEE's regions, supporting entrepreneurship based on new technologies aimed at diversifying and improving production, assistance in research and searching for new markets, creating conditions and consistent programmes that encourage foreign investors to locate and expand their businesses in the region - these are activities that can be pursued by local and regional authorities to mobilise local and regional growth. By being efficient in doing so, the authorities may add a non-traditional factor to the list of FDI inflow determinants.

The voivodeship of Lodz is not among the best developed regions in Poland. Its per capita income is relatively low and its attractiveness for investment is diversified. The disparities are especially visible between the sub-region of Lodz and the rest of the voivodeship. Agglomeration which includes the city of Lodz and its neighbouring communes is characterized by a higher income and spending, better economic and social infrastructure, and richer offer for investors.

Therefore activities with a view to attract and keep investors in the region, including foreign investors, seem fully justified. The conviction results not only from theoretical debating and evaluation of economic and social situation in the Lodz region but also from the results of the study.

Tendencies observed in the voivodeship of Lodz coincide with theories of location and impact of agglomeration benefits on the functioning of enterprises. According to the core and periphery theory, urban areas can develop more quickly because of more favourable attitude to innovations. Spatial diversification of FDI inflow, in the view of new economic geography, depends on the intensity of effect of centripetal forces which facilitate concentration and centrifugal forces which cause dispersion. The preference of urban centres indicates the advantage of centripetal forces in the region of Lodz.

More difficult situation of rural communes usually results from their worse equipment in production factors, distance from big city centres, the lack of basic economic and social infrastructure, and, according to the classical theory of location, the lack of agglomeration advantages.

Local government representatives can notice benefits resulting from FDI, including the so-called external effects. However, definitely the most frequently indicated factor was the positive influence of foreign investment on the growth of employment. Respondents unanimously emphasized, that their local governments are ready to receive any investor who creates new jobs on condition that he/she will meet the environmental requirements.

The questionnaire study shows that local governments' activities relating to servicing investors leave a lot of room for improvement. Factors discouraging foreign investors from taking up business activity are mainly procedures, law, infrastructure, business environment, human resources, and labour market. Some of those areas are within the remit of local government. Therefore a question arises why so little has changed in this field? The problem seems to remain, first of all, in legal and procedural sphere and within the so-called human factor. Therefore the principal change that is required should take place in the management of local and regional public administration which shall allow to gradually eliminate development bottlenecks.

To sum up, the study of local government units concerning attracting and keeping foreign investors in CEE's regions and the region of Lodz does not allow to unambiguously assess the region with this respect. Undoubtedly, in their majority the authorities are active vis-à-vis investors, including foreign investors, and they are aware of the need for such activities. Results are different, but they are is also due to factors independent of the local government, e.g. national legislation, and agglomeration effects.

Surely the study does not exhaust the topic of the activity of regional and local public administration in attracting and keeping foreign investors. Further and deeper studies seem justified, in particular among FDI entities who would be able to assess the activities and efficiency of local authorities.

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